

Notification template for Article 131 CRD – Other Systemically Important Institutions (O-SII)

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Emailing this template to the above-mentioned addresses constitutes an official notification, no further official letter is required. In order to facilitate the work of the notified authorities, please send the notification template in a format that allows electronically copying the information.

1. Notifying national authority	
1.1 Name of the notifying authority	Finnish Financial Supervisory Authority, FIN-FSA
2. Description of the measure	
2.1 Concerned institution or group of institutions	<p>The FIN-FSA Board has reviewed the O-SII buffers and is expected not to change them. The O-SII buffers applicable to Nordea, OP Group and Municipality Finland are 2.0 %, 1.0 % and 0.5 %, respectively.</p> <p>Nordea Group 529900ODI3047E2LIV03</p> <p>OP-Group 7437003B5WFBOIEFY714</p> <p>Municipality Finance Plc 529900HEKOENJHPNN480</p> <p>The measures apply on a consolidated level.</p> <p>The preliminary decision was made by the FIN-FSA Board on 24 May 2021. The final decision will be made on 28 June 2021.</p>
2.2 Level of the buffer applied	2.0 %, 1.0 % and 0.5 % respectively.
2.3 Name of the EU ultimate parent institution	n.a.
2.4 Names of subsidiaries	Nordea Mortgage Bank, Nordea Finance Finland, OP Corporate Bank, OP Mortgage Bank
3. Timing of the measure	
3.1 Timing of the Decision	The preliminary decision was made by the FIN-FSA Board on 24 May 2021. The FIN-FSA Board will make its final decision on 28 June 2021.
3.2 Timing of the Publication	The final decision will be published on 29 June 2021.

3.3 Disclosure	FIN-FSA website
3.4 Timing of Application	The final decision by the FIN-FSA Board will enter into force immediately.
3.5 Phasing in	na.
3.6 Review of the measure	The measure will be reviewed in 2022
4. Reason for O-SII identification and activation of the O-SII buffer	
4.1 Scores of concerned institution or group of institutions, as per EBA guidelines on the assessment of O-SIIs (Article 131.3)	<p>Nordea Group, OP Group and Municipality Finance Plc.</p> <p>Total O-SII scores 65.52 %, 11.70 % and 4.03 % respectively.</p> <p>Category scores: Size 59.15 %, 16.49 % and 5.19 %. Importance 48.42 %, 18.23 % and 1.10 %. Complexity 88.51 %, 3.03 % and 1.89 %. Interconnectedness 66.00 %, 9.05 % and 7.94 %.</p> <p>Please see enclosed Excel-file.</p>
4.2 Methodology and indicators used for designation of the O-SII (Article 131.3)	<p>Please provide information on:</p> <ul style="list-style-type: none"> a. whether you followed the EBA guidelines on the assessment of O-SIIs <i>Yes.</i> b. which threshold score has been set to identify O-SIIs <i>A 2.75% threshold score has been applied. An institution is identified as an O-SII institution if the total scores as per EBA GL exceed the threshold of 2.75%.</i> c. which of the optional indicators have been used to justify supervisory assessment decisions, if any, and what are the scores <i>Optional indicators were not used in the identification of O-SIIs.</i> d. why these optional indicators are relevant for the Member State <i>na.</i> e. why the bank is systemically important in terms of those particular optional indicators <i>na.</i> f. whether relevant entities with relative total assets not in excess of 0.02% have been excluded from the identification process <i>No, all entities are included.</i> g. names and scores of all relevant entities not excluded from the identification process (could be sent in a separate excel file, see 4.1) <i>See enclosed O-SII excel file.</i> h. whether non-bank institutions have been included in the calculations <i>All Finnish credit institutions and branches operating in Finland are included in the calculations.</i>

4.3 Supervisory judgement	Not used.
4.4 Calibrating the O-SII buffer	<p>According to the national implementation of the CRD V revisions concerning macroprudential buffers (Act on Credit Institutions, Chapter 10), the FIN-FSA shall divide the credit institutions into seven classes with capital add-ons ranging from 0 % (Class 1, non-O-SIIs) to 3 % (Class 7) and increasing with increments of 0.5 % of the total risk exposure amount. In practice, the calibration of the O-SII buffers is based on the assessment of the systemic importance of the identified O-SII institutions. The systemic importance is assessed using the O-SII scores as per EBA GL.</p> <p>The appropriate level of O-SII buffers have been assessed using two different versions of the bucketing approach where the identified O-SII institutions are divided into seven buckets based on their O-SII scores. In the first approach (linear mapping approach), equal bucket range increments are applied. The second approach is based on Equal Expected Impact (EEI) approach that has been used to calibrate the bucket ranges.</p> <p>Based on the amendments to the Credit Institutions Act (especially the delineation between SyRB and O-SII buffers), the results of the two bucketing approaches and the fact that the systemic importance of the Finnish O-SII institutions has remained broadly unchanged during the pandemic, it would be justified to increase the O-SII buffers. However, the prevailing high degree of uncertainty surrounding the progress of the pandemic and the economic recovery as well as the developments in banks' credit risks speaks in favour of keeping the O-SII buffer rates unchanged.</p> <p>In spring 2020, the O-SII buffers and the systemic risk buffers for the Finnish banks were recalibrated so that the total structural buffer requirements for all Finnish credit institutions decreased by 1 percentage point. The decisions were taken to alleviate the effects of the COVID-19 pandemic. Finnish banks' loan losses could still increase steeply, and capital ratios decline notably, for instance in the event of a considerable delay in the fading of the pandemic compared with previous forecasts and a broad-based contraction of the economy. Were the capital requirements increased at the same time as loan losses are realised, the banks' lending capacity could be essentially reduced. Refraining from an increase in capital requirements would also be consistent with the FIN-FSA's and the ECB Banking Supervision's previous communications on the restoration of buffer requirements to their previous levels.</p> <p>The post-pandemic calibration of O-SII and other macroprudential capital buffers should be assessed holistically taking into account i.a. the identified systemic risks, the assessment of the sufficient total level of macroprudential buffers, potential objectives to adjust the balance between structural and cyclical macroprudential buffers, level playing field considerations as well as the implications of future regulation (especially Basel III).</p>
4.5 Effectiveness and proportionality of measure	<p>The levels of the O-SII buffers are benchmarked against the different versions of the ECB floor methodology to ensure the level playing field and sufficient mitigation of systemic risks within the Banking Union. The applicable O-SII buffer rates for the Finnish O-SII institutions exceed the minimum requirements given by the ECB floor methodologies as well as average level of O-SII buffers in EU, which is supported by the higher-than-average level of concentration of the Finnish banking sector and the large size of the most significant institutions relative to the economy.</p>

	The progress of the pandemic and developments in banks' credit risks continue to be surrounded by a considerable degree of uncertainty, which supports refraining from increasing the O-SII buffers. In spring 2020, the O-SII buffers and the systemic risk buffers for the Finnish banks were recalibrated to mitigate the adverse effects of the pandemic on Finnish banks' ability to supply credit to the Finnish real economy. The decisions in spring 2020 were estimated to increase the lending capacity of Finnish credit institutions by around EUR 52 billion. This, together with the decisions (CCyB reductions) made by macroprudential supervisors of other countries, was estimated to increase the total lending capacity of Finnish banking sector by around EUR 95 billion.
5. Cross-border and cross-sector impact of the measure	
5.1 Assessment of cross-border effects and the likely impact on the internal market (Recommendation ESRB/2015/2)	The cross-border effects as well as the impact on the internal market are estimated to be limited as the buffer rates applicable for Finnish banks are not changed while the decisions on lowering the capital requirements in other Member States (e.g. CCyB reductions and cancellations) are still in place for the most part.
5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State	See above.
6. Combinations and interactions with other measures	
6.1 Combinations between G-SII and O-SII buffers (Article 131.14)	na
6.2 Combinations with SRB buffers (Article 131.14 + Article 133.5)	The national implementation of the CRD V revisions concerning macroprudential buffers (Act on Credit Institutions, Chapter 10) entered into force on 1 April 2021. According to the new legislation, credit institutions must meet both the O-SII and the systemic risk buffer requirement (SyRB) simultaneously (i.e. the requirements are cumulative). As a part of the recalibration of the structural buffers in spring 2020, the FIN-FSA Board decided to remove the systemic risk buffer requirement for all the Finnish credit institutions (i.e. it was to 0% for all credit institutions). The prevailing cyclical conditions also support keeping the SyRB rates unchanged. Consequently, the revised provisions on the interplay between SyRB and O-SII buffers will not have any immediate effects on the capital requirements of Finnish banks.
6.3 O-SII requirement for a subsidiary (Article 131.8)	n.a.
6.4 Interaction with other measures	Capital conservation buffer was introduced in Finland on 1 January 2015 without phasing in.

7. Miscellaneous	
7.1 Contact person(s) at notifying authority	Artru Kiviniemi +358 9 183 5237, artru.kiviniemi@fiva.fi
7.2 Any other relevant information	The preliminary decision was made by the FIN-FSA Board on 24 May 2021. The final decision will be made on 28 June 2021 and published on 29 June 2021.